

Message Text

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TO AMEMBASSY LONDON PRIORITY

C O N F I D E N T I A L STATE 118175

E.O. 11652: GDS

FOR: THE HONORABLE ARTHUR F. BURNS, CHAIRMAN
FEDERAL RESERVE BOARD, C/O AMEMBASSY ARMSTRONG

BALLES PLEASED TO RECEIVE YOUR GUIDANCE. THE PRESIDENT TODAY HAS SENT A COMPREHENSIVE REGULATORY REFORM MESSAGE TO THE HILL. AT THE TIME OF THIS CABLE WE DO NOT HAVE DETAILS BUT HOPE TO PROVIDE THEM TOMORROW. CARLSON ADVISES THAT ALL IS NOT SMOOTH WITH REPUBLICANS ON HOUSE GOVERNMENT OPERATIONS. ST GERMAIN SUBCOMMITTEE HAS NOT YET ACTIVELY BEGUN TO MARK UP INTERNATIONAL BANKING ACT OF 1976.

THE BOOK VALUE OF INVENTORIES HELD BY RETAIL STORES, SEASONALLY ADJUSTED, ROSE AT AND \$8.9 BILLION ANNUAL RATE IN MARCH, ABOUT THE SAME AS IN FEBRUARY. FOR THE FIRST QUARTER AS A WHOLE, RETAIL STOCKS WERE UP AT AN ANNUAL RATE OF \$8.0 BILLION AFTER CHANGING LITTLE IN THE FOURTH QUARTER. DURABLE GOODS STOCKS ROSE AT A \$5.2 BILLION RATE IN MARCH WITH ALL CATEGORIES SHOWING GAINS. THE RATION OF INVENTORIES TO SALES IN RETAIL TRADE AT 1.41 IN MARCH WAS ABOUT UNCHANGED FROM THE QUITE LOW FEBRUARY POSITION. THE BOOK VALUE OF TOTAL MANUFACTURING AND TRADE INVENTORIES ROSE AT A \$19.1 BILLION ANNUAL RATE IN THE FIRST QUARTER FOLLOWING A DECLINE AT A \$1.3 BILLION RATE IN THE PRECEDING QUARTER. SALES OF NEW, DOMESTIC-MODEL CARS IN THE FIRST TEN DAYS OF MAY ARE TENTATIVELY ESTIMATED AT A SEASONALLY ADJUSTED ANNUAL RATE OF 8.8 MILLION UNITS, DOWN FROM A 9.0 MILLION RATE IN APRIL.

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APPARENTLY SALES OF SMALL CARS CONTINUED TO LAG SALES OF LARGER

MODELS.

AVERAGE INTEREST RATES ON NEW COMMITMENTS FOR CONVENTIONAL NEW-HOME LOANS IN THE PRIMARY MARKET DECLINED 5 BASIS POINTS FURTHER IN APRIL TO 8.90 PER CENT. RATES ON EXISTING-HOME LOANS ALSO DECLINED 5 BASIS POINTS TO 8.95 PER CENT.

THE HOUSE GAVE FINAL CONGRESSIONAL APPROVAL TO A CEILING OF \$413.3 BILLION ON FEDERAL SPENDING. THE VOTE WAS 224 TO 170. THE SENATE PASSED THE MEASURE BY A 65 TO 29 VOTE YESTERDAY.

STERLING DECLINED FAIRLY SHARPLY IN EARLY TRADING BUT LATER RECOVERED SOMEWHAT ON NEWS THAT THE MINE WORKERS UNION HAD VOTED TO ACCEPT THE GOVERNMENT'S WAGE AGREEMENT WITH THE TUC LEADERSHIP. STERLING IS NOW ABOUT \$1.8280. THE BANK OF ENGLAND SOLD A SMALL AMOUNT OF DOLLARS. THE ITALIAN LIRA TRADED OVER A WIDE RANGE BUT FIRMED BY ABOUT 0.3 PER CENT ON BALANCE. THE BANK OF ITALY SOLD A SMALL AMOUNT OF DOLLARS ON A NET BASIS. THE SWISS FRANC ROSE ABOUT 0.2 PER CENT WHILE OTHER CONTINENTAL CURRENCIES WERE UNCHANGED TO SLIGHTLY LOWER AGAINST THE DOLLAR. THE GUILDER REMAINED RELATIVELY WEAK AGAINST THE GERMAN MARK AND THE NETHERLANDS BANK SOLD A MODERATE AMOUNT OF DOLLARS. THE SYSTEM AGAIN PURCHASED SMALL AMOUNTS OF BELGIAN FRANCS AND GERMAN MARKS. LONDON GOLD WAS \$127.70 AT THE SECOND FIXING, DOWN 20 CENTS FROM YESTERDAY.

DOMESTICALLY, THE TREASURY SECURITIES MARKET HAD A BETTER TONE, REFLECTING IN PART THE SUCCESSFUL DISTRIBUTION OF RECENT TREASURY ISSUES. THE 3-MONTH BILL RATE FELL 4 BASIS POINTS TO 5.10 PER CENT. FEDERAL FUNDS TRADED MOSTLY AT 5-1/8 PER CENT. A NEED TO SUPPLY RESERVES IS INDICATED FOR THE CURRENT STATEMENT WEEK, BUT THE DESK TOOK NO ACTION IN THE MARKET TODAY. STOCK PRICES DECLINED SOMEWHAT IN MODERATE TRADING. THE DOW JONES INDUSTRIALS CLOSED JUST OVER 1000.

THE LATEST DATA ON THE MONETARY AGGREGATES INDICATE SOMEWHAT MORE STRENGTH THAN LAST WEEK, WITH BOTH M-1 AND M-2 EXPECTED TO GROW AT RATES SLIGHTLY IN EXCESS OF 12 PER CENT IN THE APRIL-MAY PERIOD.

PRESIDENT FORD NOMINATED MR. WILLIAM D. ROGERS FOR THE POST
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OF UNDER SECRETARY OF STATE FOR ECONOMIC AFFAIRS. HE WILL SUCCEED MR. CHARLES ROBINSON, WHO HAS BEEN APPOINTED DEPUTY SECRETARY OF STATE.

MR. PRELL REPORTS THAT CITYBANK'S FORMULA WOULD SUGGEST THAT IT MAY RAISE ITS PRIME RATE TO 6-3/4 PER CENT TOMORROW. ROBINSON

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